

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ESTILL COUNTY FISCAL COURT**

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Estill County Fiscal Court for the fiscal year ended June 30, 2011. We have issued unqualified opinions on the governmental activities business-type activities, and each major fund, of Estill County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that could have a direct and material effect on Estill County's major federal program: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040).

Financial Condition:

The fiscal court had total net assets of \$9,256,724 as of June 30, 2011. The fiscal court had unrestricted net assets of \$(21,859) in its governmental activities as of June 30, 2011, with total net assets of \$9,252,601. In its business-type activities, total net cash and cash equivalents were \$4,123 with total net assets of \$4,123. The fiscal court had total debt principal as of June 30, 2011 of \$485,227 with \$117,833 due within the next year.

Report Comments:

- 2011-01 The County Did Not Comply With Debt Agreements
- 2011-02 The County Encumbered Amounts In Excess Of Available Cash Balances
- 2011-03 The County Should Pay Invoices Within 30 Working Days
- 2011-04 The County Should Maintain A List Of Encumbrances And Unpaid Obligations
- 2011-05 The Fiscal Court Does Not Monitor Timesheets
- 2011-06 The Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoners
- 2011-07 The Jailer Should Maintain A Receipts And Disbursements Ledger For The Jail Commissary
- 2011-08 The Jailer Should Deposit All Funds Daily
- 2011-09 The County Lacks Adequate Segregation Of Duties Over Receipts And Record-Keeping Functions
- 2011-10 The Estill County Detention Center Lacks Adequate Segregation Of Duties Over The Accounting Functions
- 2011-11 The County Should Improve Controls And Comply With Davis Bacon Requirements For CSEPP Funds
- 2011-12 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Estill County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Estill County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Estill County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Lori H. Flanery, Secretary
 Finance and Administration Cabinet
 Honorable Wallace Taylor, Estill County Judge/Executive
 Members of the Estill County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Estill County, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2012 on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2011-01 The County Did Not Comply With Debt Agreements
- 2011-02 The County Encumbered Amounts In Excess Of Available Cash Balances
- 2011-03 The County Should Pay Invoices Within 30 Working Days
- 2011-04 The County Should Maintain A List Of Encumbrances And Unpaid Obligations
- 2011-05 The Fiscal Court Does Not Monitor Timesheets
- 2011-06 The Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoners
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- 2011-10 The Estill County Detention Center Lacks Adequate Segregation Of Duties Over The Accounting Functions
- 2011-11 The County Should Improve Controls And Comply With Davis Bacon Requirements For CSEPP Funds
- 2011-12 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP

Respectfully submitted,



Adam H. Edelen
 Auditor of Public Accounts

March 14, 2012

ESTILL COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Wallace Taylor	County Judge/Executive
Greg Hall	Magistrate
Darrell Johnson	Magistrate
Gerald Rader	Magistrate

Other Elected Officials:

Rodney Davis	County Attorney
Bo Morris	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Jeff Hix	Property Valuation Administrator
Tony Murphy	Coroner

Appointed Personnel:

Teresa Sparks	Deputy County Judge/Executive
Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector
Christine Brandenburg	Finance Officer

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ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 180,750	\$ 4,123	\$ 184,873
Total Current Assets	180,750	4,123	184,873
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	106,697		106,697
Land and Land Improvements	575,000		575,000
Buildings	4,064,973		4,064,973
Equipment	1,525,576		1,525,576
Vehicles	643,728		643,728
Infrastructure	2,641,104		2,641,104
Total Noncurrent Assets	9,557,078		9,557,078
Total Assets	9,737,828	4,123	9,741,951
LIABILITIES			
Current Liabilities:			
Bonds Payable	21,675		21,675
Financing Obligations Payable	96,158		96,158
Total Current Liabilities	117,833		117,833
Noncurrent Liabilities:			
Bonds Payable	37,946		37,946
Financing Obligations Payable	329,448		329,448
Total Noncurrent Liabilities	367,394		367,394
Total Liabilities	485,227		485,227
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,071,851		9,071,851
Restricted For:			
Roads	462		462
Protection to Persons and Property/Grant Projects	173,429		173,429
Debt Service	28,718		28,718
Unrestricted	(21,859)	4,123	(17,736)
Total Net Assets	\$ 9,252,601	\$ 4,123	\$ 9,256,724

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,619,712	\$ 107,662	\$ 62,890	\$
Protection to Persons and Property	1,869,363		297,299	1,055,382
General Health and Sanitation	207,801		203,178	203,251
Social Services	156,685			
Recreation and Culture	7,697			
Roads	755,138		320,032	1,287,891
Debt Service	19,274			
Capital Projects	201,647			
Total Governmental Activities	4,837,317	107,662	883,399	2,546,524
Business-type Activities:				
Jail Canteen	12,972	10,208		
Total Business-type Activities	12,972	10,208		
Total Primary Government	\$ 4,850,289	\$ 117,870	\$ 883,399	\$ 2,546,524

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Occupational and Other Taxes
Excess Fees
Miscellaneous Revenues
Unrestricted Investment Earnings

Total General Revenues
Change in Net Assets
Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,449,160)	\$	\$ (1,449,160)
(516,682)		(516,682)
198,628		198,628
(156,685)		(156,685)
(7,697)		(7,697)
852,785		852,785
(19,274)		(19,274)
(201,647)		(201,647)
(1,299,732)		(1,299,732)
	(2,764)	(2,764)
	(2,764)	(2,764)
(1,299,732)	(2,764)	(1,302,496)
281,954		281,954
1,144		1,144
74,355		74,355
1,238,240		1,238,240
135,736		135,736
372,942		372,942
1,030		1,030
2,105,401		2,105,401
805,669	(2,764)	802,905
8,446,932	6,887	8,453,819
\$ 9,252,601	\$ 4,123	\$ 9,256,724

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	State and Federal Grants Fund
ASSETS				
Cash and Cash Equivalents	\$ 6,142	\$ 372	\$ 807	\$ 65,403
Total Assets	<u>6,142</u>	<u>372</u>	<u>807</u>	<u>65,403</u>
FUND BALANCES				
Restricted For:				
Roads	462			
Protection to Persons and Property/Grant Projects				65,403
Debt Service	14,766		13,952	
Assigned To:				
Roads		372		
Unassigned	<u>(9,086)</u>	<u>372</u>	<u>(13,145)</u>	<u>65,403</u>
Total Fund Balances	<u>\$ 6,142</u>	<u>\$ 372</u>	<u>\$ 807</u>	<u>\$ 65,403</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources

And Therefore Are Not Reported in the Funds.

Accumulated Depreciation

Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.

Bonds

Financing Obligations

Net Assets Of Governmental Activities

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

CSEPP Fund	911/CMRS Fund	Total Governmental Funds
\$ 42,515	\$ 65,511	\$ 180,750
<u>42,515</u>	<u>65,511</u>	<u>180,750</u>

		462
42,515	65,511	173,429
		28,718
		372
		<u>(22,231)</u>
<u>\$ 42,515</u>	<u>\$ 65,511</u>	<u>\$ 180,750</u>

\$ 180,750

13,159,568
(3,602,490)

(59,621)
(425,606)

\$ 9,252,601

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	State and Federal Grants Fund
REVENUES				
Taxes	\$ 1,364,741	\$	\$ 186,387	\$
In Lieu Tax Payments		17,769		
Excess Fees	135,736			
Licenses and Permits	13,517			
Intergovernmental	129,477	1,080,250	86,276	163,513
Charges for Services	215,106	519,018	14,366	63,115
Miscellaneous	471,686	14,091	5,381	
Interest	27	22	34	946
Total Revenues	<u>2,330,290</u>	<u>1,631,150</u>	<u>292,444</u>	<u>227,574</u>
EXPENDITURES				
General Government	742,033			
Protection to Persons and Property	471,914		668,655	
General Health and Sanitation	87,093			119,108
Social Services	156,685			
Recreation and Culture	6,091			
Roads	1,786	1,266,042		
Debt Service	88,250	28,488		
Capital Projects		201,647		
Administration	603,557	166,073	101,862	4,370
Total Expenditures	<u>2,157,409</u>	<u>1,662,250</u>	<u>770,517</u>	<u>123,478</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>172,881</u>	<u>(31,100)</u>	<u>(478,073)</u>	<u>104,096</u>
Other Financing Sources (Uses)				
Debt Issuance	43,634	100,244		
Transfers From Other Funds	448,583	202,000	475,413	
Transfers To Other Funds	(701,889)	(273,000)		(76,536)
Total Other Financing Sources (Uses)	<u>(209,672)</u>	<u>29,244</u>	<u>475,413</u>	<u>(76,536)</u>
Net Change in Fund Balances	(36,791)	(1,856)	(2,660)	27,560
Fund Balances - Beginning (Restated)	42,933	2,228	3,467	37,843
Fund Balances - Ending	<u>\$ 6,142</u>	<u>\$ 372</u>	<u>\$ 807</u>	<u>\$ 65,403</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

CSEPP Fund	911/CMRS Fund	Total Governmental Funds
\$	\$	\$ 1,551,128
		17,769
		135,736
		13,517
1,055,382		2,514,898
	100,592	912,197
5,554		496,712
		1,029
<u>1,060,936</u>	<u>100,592</u>	<u>5,642,986</u>
		742,033
1,037,672	20,178	2,198,419
		206,201
		156,685
		6,091
		1,267,828
		116,738
		201,647
<u>54,107</u>	<u>312</u>	<u>930,281</u>
<u>1,091,779</u>	<u>20,490</u>	<u>5,825,923</u>
<u>(30,843)</u>	<u>80,102</u>	<u>(182,937)</u>
		143,878
	45,429	1,171,425
	<u>(120,000)</u>	<u>(1,171,425)</u>
	<u>(74,571)</u>	<u>143,878</u>
(30,843)	5,531	(39,059)
73,358	59,980	219,809
<u>\$ 42,515</u>	<u>\$ 65,511</u>	<u>\$ 180,750</u>

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (39,059)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,437,096
Construction In Progress	45,421
Depreciation Expense	(591,375)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Debt Issuance	(143,878)
Financing Obligations Principal Payments	97,464

Change in Net Assets of Governmental Activities	<u><u>\$ 805,669</u></u>
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ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 4,123
Total Assets	<u>4,123</u>
Net Assets	
Unrestricted	4,123
Total Net Assets	<u><u>\$ 4,123</u></u>

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 10,208
Total Operating Revenues	<u>10,208</u>
Operating Expenses	
Cost of Sales	3,900
Recreational	6,967
Miscellaneous	<u>2,105</u>
Total Operating Expenses	<u>12,972</u>
Operating Income (Loss)	<u>(2,764)</u>
Change In Net Assets	(2,764)
Total Net Assets - Beginning	<u>6,887</u>
Total Net Assets - Ending	<u><u>\$ 4,123</u></u>

The accompanying notes are an integral part of the financial statements.

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ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 10,208
Cash Payments to Vendors	<u>(12,972)</u>
Net Cash Provided By Operating Activities	<u>(2,764)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,764)
Cash and Cash Equivalents - July 1, 2010	<u>6,887</u>
Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 4,123</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$ (2,764)</u>
Net Cash Provided By Operating Activities	<u><u>\$ (2,764)</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The county has no component units.

C. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Estill County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

State and Federal Grants Fund – The primary purpose of this fund is to account for state and federal grants. The primary source of revenue is from state and federal grants. Federal guidelines require that federal grants be accounted for separately instead of commingled with other governmental funds. In compliance with GASB 54, the county has determined to combine and present the EM Tower, Search/Rescue, Homeland Security, Planning/Prep, Emergency Management and CERT Funds in the Grants Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund- The primary purpose of this fund is to account for the federal CSEPP grant monies, which is the only source of revenue for this fund. Estill County is part of a ten county region in Kentucky that receives federal grant monies to mitigate disasters associated with the Bluegrass Army Depot's chemical stockpile located in neighboring Madison County. The Department for Local Government and the federal government require the fiscal court to maintain these receipts and expenditures separately from the General Fund.

911/CRMS Fund – The primary purpose of this fund is to account for the surcharge taxes for Commercial Mobile Radio Systems (CRMS). The state distributes CRMS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, State and Federal Grants Fund, CSEPP Fund, and 911/CRMS Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 25,000	10/75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the Treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds in the aggregate and included with the significant encumbrances note disclosure at Note 11.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Interfund Receivables, Payables, and Transfers

	General Fund	Road Fund	911 Fund	State Grants Funds	Total Transfers In
General Fund	\$	\$ 273,000	\$ 120,000	\$ 55,583	\$ 448,583
Road Fund	202,000				202,000
Jail Fund	475,413				475,413
911 Fund	24,477			20,952	45,429
Total Transfers Out	<u>\$ 701,890</u>	<u>\$ 273,000</u>	<u>\$ 120,000</u>	<u>\$ 76,535</u>	<u>\$ 1,171,425</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 575,000	\$	\$	\$ 575,000
Construction In Progress	2,131,494	45,421	(2,070,218)	106,697
Total Capital Assets Not Being Depreciated	2,706,494	45,421	(2,070,218)	681,697
Capital Assets, Being Depreciated:				
Buildings	2,531,699	2,298,265		4,829,964
Equipment	2,491,344	433,179		2,924,523
Vehicles	1,180,548	155,420		1,335,968
Infrastructure	2,766,966	620,450		3,387,416
Total Capital Assets Being Depreciated	8,970,557	3,507,314		12,477,871
Less Accumulated Depreciation For:				
Buildings	(647,353)	(117,638)		(764,991)
Equipment	(1,192,805)	(206,142)		(1,398,947)
Vehicles	(622,273)	(69,967)		(692,240)
Infrastructure	(548,684)	(197,628)		(746,312)
Total Accumulated Depreciation	(3,011,115)	(591,375)		(3,602,490)
Total Capital Assets, Being Depreciated, Net	5,959,442	2,915,939		8,875,381
Governmental Activities Capital Assets, Net	\$ 8,665,936	\$ 2,961,360	\$ (2,070,218)	\$ 9,557,078

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 42,296
Protection to Persons and Property	305,437
General Health and Sanitation	1,600
Recreation and Culture	1,606
Roads, Including Depreciation of General Infrastructure Assets	240,436
Total Depreciation Expense - Governmental Activities	<u>\$ 591,375</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt

A. Refinancing Financing Obligation

On December 31, 2004, Estill County entered into an \$825,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire portion of the County's outstanding debt. Required payments of principal of \$11,697 and interest of \$3,087 for fiscal year 2011 were not made timely. As of June 30, 2011, principal outstanding was \$288,079. Future principal and interest requirements are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	Principal	Interest
2012	\$ 58,395	\$ 14,258
2013	46,716	9,198
2014	46,716	7,229
2015	46,716	5,257
2016	46,716	3,291
2017	42,820	1,286
Totals	<u>\$ 288,079</u>	<u>\$ 40,519</u>

B. Financing Obligation-Tractor/Mower

On August 20, 2005, Estill County entered into a \$50,000 lease agreement with Kentucky Association of Counties. The purpose of the lease was for the purchase of a tractor/mower. This is a five year lease, which requires annual principal payments of \$10,000 and monthly interest and fee payments. This was paid off during fiscal year 2011.

C. Financing Obligation-Case Backhoe

On June 29, 2006, Estill County entered into a \$67,149 lease agreement with Citizens Guaranty Bank. The purpose of the lease was for the purchase of a Case backhoe. This is a five year lease, which requires annual principal payments and monthly interest. This was paid off during fiscal year 2011.

D. Financing Obligation-911 Upgrade

On June 29, 2006, Estill County entered into an \$115,419 lease agreement with Citizens Guaranty Bank. The purpose of the lease was for the upgrading the County's 911 system. This is a five year lease, which requires monthly principal and interest payments. As of June 30, 2011, principal outstanding was \$2,198. Future principal and interest requirements are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	Principal	Interest
2012	\$ 2,198	\$ 10
Totals	<u>\$ 2,198</u>	<u>\$ 10</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

E. Revenue Bonds-Jail Facility

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of constructing a jail facility. On April 1, 1987, the fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. The principal amount outstanding as of June 30, 2011 was 59,621. Required payments of principal of \$10,505 and interest of \$3,447 for fiscal year 2011 were not paid timely. Future principal and interest requirements are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 21,675	\$ 6,207
2013	11,879	2,029
2014	12,632	1,252
2015	<u>13,435</u>	<u>426</u>
Totals	<u>\$ 59,621</u>	<u>\$ 9,914</u>

F. Financing Obligation-CAD- GEO 911 Upgrade

On May 19, 2010, Estill County entered into a \$43,634 lease agreement with Kansas State Bank. The purpose of the lease was for the upgrading the County's 911 system. This is a five year lease, which requires monthly principal and interest payments. As of June 30, 2011, principal outstanding was \$35,085. Future principal and interest requirements are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 10,565	\$ 2,116
2013	11,326	1,224
2014	12,143	538
2015	<u>1,051</u>	<u>6</u>
Totals	<u>\$ 35,085</u>	<u>\$ 3,884</u>

G. Financing Obligation-Road Equipment

On October 4, 2010, Estill County entered into a \$100,244 lease agreement with Citizens Guaranty Bank. The purpose of the lease was for the purchasing two Dodge trucks. This is a four year lease, which requires monthly principal and interest payments. As of June 30, 2011, principal outstanding was \$100,244. Future principal and interest requirements are:

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

G. Financing Obligation-Road Equipment (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 25,000	\$ 4,352
2013	25,000	3,010
2014	25,000	1,679
2015	25,244	339
Totals	<u>\$ 100,244</u>	<u>\$ 9,380</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 59,621	\$	\$	\$ 59,621	\$ 21,675
Financing Obligations	379,192	143,878	97,464	425,606	96,158
Governmental Activities					
Long-term Liabilities	<u>\$ 438,813</u>	<u>\$ 143,878</u>	<u>\$ 97,464</u>	<u>\$ 485,227</u>	<u>\$ 117,833</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$16,012 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Employee Retirement System (Continued)

The county's contribution for FY 2009 was \$214,823, FY 2010 was \$263,113, and FY 2011 was \$280,379.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Deferred Compensation

On February 24, 2000, the Estill County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2011, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Change In Accounting Principle And Prior Period Adjustments

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB statement 54 have now been included in the general fund and state and federal grants fund.

As a result, beginning fund balance for the General Fund has been increased for the addition of the LGEA Fund and the State and Federal Grants Fund has been increased for the addition of the previously reported EM Tower, Search/Rescue, Homeland Security, Planning/Prep, Emergency Management and CERT Funds in the Grants Fund. The effect of the change is a total increase of \$23,984 in the State and Federal Grants Fund and a total increase of \$4,858 in the General Fund. In addition, the CSEPP Fund was increased by \$225 for voided checks.

Beginning net assets of the governmental activities has been restated by (\$52,089) to \$8,446,932. The governmental activities cash balance for the CSEPP fund was increased \$225 for voided checks. The prior year capital assets balance was decreased by \$52,314 for prior year errors to \$8,665,936.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 11. Significant Encumbrances

The county incurred significant encumbrances at June 30, 2011 in excess of available cash balance in the General, Road, and Jail Funds.

	General Fund	Road Fund	Jail Fund
Cash Balance			
as of June 30, 2011	\$ 6,142	\$ 372	\$ 807
Encumbrances	86,638	71,284	49,998
Unpaid Debt Obligations	<u>14,766</u>	<u> </u>	<u>13,952</u>
Unencumbered Cash			
Balance	<u>\$ (95,262)</u>	<u>\$ (70,912)</u>	<u>\$ (63,143)</u>

Encumbrances, which are more fully described in Note 1.H., were compiled and consist of the following amounts: the General Fund - \$86,638, the Road Fund - \$71,284, and the Jail Fund - \$49,998.

Note 12. Violations of Contracts and Agreements

The county did not pay required debt service payments timely in accordance with debt agreements. The amounts that were required to be paid by June 30 included \$14,766 in General Fund debt service and interest payments related to the 2004 refinancing obligation described at Note 5.A. and \$13,952 in Jail Fund debt service and interest payments related to the Revenue Bonds – Jail Facility described at Note 5.E.

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,614,845	\$ 1,614,845	\$ 1,358,310	\$ (256,535)
In Lieu Tax Payments	2,500	2,500		(2,500)
Excess Fees	92,000	92,000	135,736	43,736
Licenses and Permits	16,500	16,500	13,517	(2,983)
Intergovernmental Revenue	121,229	121,229	111,812	(9,417)
Charges for Services	236,325	236,325	215,106	(21,219)
Miscellaneous	436,111	486,721	471,686	(15,035)
Interest	1,100	1,100	14	(1,086)
Total Revenues	<u>2,520,610</u>	<u>2,571,220</u>	<u>2,306,181</u>	<u>(265,039)</u>
EXPENDITURES				
General Government	718,074	770,679	733,933	36,746
Protection to Persons and Property	626,465	552,297	416,540	135,757
General Health and Sanitation	79,640	101,995	85,571	16,424
Social Services	189,465	195,303	156,670	38,633
Recreation and Culture	2,000	2,000	769	1,231
Debt Service	200,000	185,095	88,250	96,845
Administration	580,639	652,600	603,537	49,063
Total Expenditures	<u>2,396,283</u>	<u>2,459,969</u>	<u>2,085,270</u>	<u>374,699</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>124,327</u>	<u>111,251</u>	<u>220,911</u>	<u>109,660</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	160,047	479,620	448,583	(31,037)
Transfers To Other Funds	<u>(309,374)</u>	<u>(628,947)</u>	<u>(701,889)</u>	<u>(72,942)</u>
Total Other Financing Sources (Uses)	<u>(149,327)</u>	<u>(149,327)</u>	<u>(253,306)</u>	<u>(103,979)</u>
Net Changes in Fund Balance	(25,000)	(38,076)	(32,395)	5,681
Fund Balance - Beginning	<u>25,000</u>	<u>38,076</u>	<u>38,075</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,680</u>	<u>\$ 5,680</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 23,792	\$ 23,792	\$ 17,769	\$ (6,023)
Intergovernmental Revenue	964,022	1,096,515	1,080,250	(16,265)
Charges for Services		519,018	519,018	
Miscellaneous	17,500	22,746	14,091	(8,655)
Interest	100	100	22	(78)
Total Revenues	<u>1,005,414</u>	<u>1,662,171</u>	<u>1,631,150</u>	<u>(31,021)</u>
EXPENDITURES				
Roads	613,050	1,290,500	1,266,042	24,458
Debt Service	42,218	63,285	28,488	34,797
Capital Projects	48,344	236,759	201,647	35,112
Administration	326,802	196,627	166,073	30,554
Total Expenditures	<u>1,030,414</u>	<u>1,787,171</u>	<u>1,662,250</u>	<u>124,921</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(125,000)</u>	<u>(31,100)</u>	<u>93,900</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		100,000	100,244	244
Transfers From Other Funds	160,047	160,047	202,000	41,953
Transfers To Other Funds	<u>(160,047)</u>	<u>(160,047)</u>	<u>(273,000)</u>	<u>(112,953)</u>
Total Other Financing Sources (Uses)		<u>100,000</u>	<u>29,244</u>	<u>(70,756)</u>
Net Changes in Fund Balance	(25,000)	(25,000)	(1,856)	23,144
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>2,228</u>	<u>(22,772)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 372</u>	<u>\$ 372</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 174,000	\$ 174,000	\$ 186,387	\$ 12,387
Intergovernmental Revenue	96,184	96,184	86,276	(9,908)
Charges for Services	66,500	66,500	14,366	(52,134)
Miscellaneous	6,300	11,002	5,381	(5,621)
Interest	50	50	34	(16)
Total Revenues	<u>343,034</u>	<u>347,736</u>	<u>292,444</u>	<u>(55,292)</u>
EXPENDITURES				
Protection to Persons and Property	364,776	673,299	668,655	4,644
Debt Service	14,285	6,043		6,043
Administration	114,800	140,761	101,862	38,899
Total Expenditures	<u>493,861</u>	<u>820,103</u>	<u>770,517</u>	<u>49,586</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(150,827)</u>	<u>(472,367)</u>	<u>(478,073)</u>	<u>(5,706)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	149,327	468,900	475,413	6,513
Total Other Financing Sources (Uses)	<u>149,327</u>	<u>468,900</u>	<u>475,413</u>	<u>6,513</u>
Net Changes in Fund Balance	(1,500)	(3,467)	(2,660)	807
Fund Balance - Beginning	<u>1,500</u>	<u>3,467</u>	<u>3,467</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 807</u>	<u>\$ 807</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

STATE AND FEDERAL GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 37,500	\$ 93,666	\$ 90,481	\$ (3,185)
Charges for Services	1,500	62,934	55,290	(7,644)
Total Revenues	39,000	156,600	145,771	(10,829)
EXPENDITURES				
Protection to Persons and Property	12,000	12,000		12,000
General Health and Sanitation	27,000	141,853	119,109	22,744
Capital Projects		16,606	370	16,236
Total Expenditures	39,000	170,459	119,479	50,980
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(13,859)	26,292	40,151
Net Changes in Fund Balances		(13,859)	26,292	40,151
Fund Balances - Beginning		13,859	13,859	
Fund Balances - Ending	\$ 0	\$ 0	\$ 40,151	\$ 40,151

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

CSEPP FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 544,500	\$ 1,055,382	\$ 1,055,382	\$
Miscellaneous		5,554	5,554	
Total Revenues	544,500	1,060,936	1,060,936	
EXPENDITURES				
Protection to Persons and Property	486,500	1,048,313	1,037,672	10,641
Administration	58,000	85,756	54,107	31,649
Total Expenditures	544,500	1,134,069	1,091,779	42,290
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(73,133)	(30,843)	42,290
Net Changes in Fund Balances		(73,133)	(30,843)	42,290
Fund Balances - Beginning (Restated)		73,133	73,358	225
Fund Balances - Ending	\$ 0	\$ 0	\$ 42,515	\$ 42,515

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 81,407	\$ 81,407	\$ 100,592	\$ 19,185
Miscellaneous		24,477		(24,477)
Total Revenues	81,407	105,884	100,592	(5,292)
EXPENDITURES				
Protection to Persons and Property	50,000	109,980	20,178	89,802
Administration	31,407	76,836	312	76,524
Total Expenditures	81,407	186,816	20,490	166,326
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(80,932)	80,102	161,034
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		20,952	45,429	24,477
Transfers To Other Funds			(120,000)	(120,000)
Total Other Financing Sources (Uses)		20,952	(74,571)	(95,523)
Net Changes in Fund Balances		(59,980)	5,531	65,511
Fund Balances - Beginning		59,980	59,980	
Fund Balances - Ending	\$ 0	\$ 0	\$ 65,511	\$ 65,511

ESTILL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation To Statement of Revenues, Expenditures And Changes In Fund Balances – General Fund

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund for total revenues by 24,190, total expenditures by \$28,505, and beginning fund balance by \$4,858, and ending fund balance by \$462; due the inclusion of the LGEA Fund with the General Fund in accordance with Statement No. 54 of the Governmental Accounting Standards Board.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in expenditures and other financing sources and (uses) by \$43,634, due to financing obligation proceeds and the expenditure of funds for upgrade to 911 system.

Note 3. Reconciliation To Statement of Revenues, Expenditures And Changes In Fund Balances – State And Federal Grants Fund

Due to the implementation of GASB Statement No. 54, the *Statement of Revenues, Expenditures, and Changes in Fund Balance* differs from the *Budgetary Comparison Schedule* for the State and Federal Grants Fund. The *Statement of Revenues, Expenditures, and Changes in Fund Balance* includes the activity for the State and Federal Grants Fund, EM Tower, Search/Rescue, Homeland Security, Planning/Prep, Emergency Management and CERT Funds all together. Total revenue differs by \$81,803, total expenditures by \$3,999, total other financing sources (uses) by (\$76,536), beginning fund balance by \$23,984, and ending fund balance by \$25,252.

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ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

Federal Grantor

Program Title

Grant Name (CFDA #)

Pass-Through

Grantor's Number

Expenditures

Cash Programs:

U.S. Department of Homeland Security

Passed Through State Department Of Military Affairs:

Disaster Grants - Public Assistance

(CFDA # 97.036)

FEMA 1818 DR KY \$ 89,428

Chemical Stockpile Emergency Preparedness Program

(CFDA # 97.040)

*

Not available 1,070,027

Total Expenditures of Federal Awards

\$ 1,159,455

* *Tested as a Major Program*

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2011

- Note 1. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Estill County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 14, 2012. Estill County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Estill County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Estill County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Estill County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-09 and 2011-10 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, 2011-03, 2011-04, 2011-05, 2011-06, 2011-07, and 2011-08.

The Estill County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

March 14, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Independent Auditor's Report

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-11.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Estill County's internal control over compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-11 and 2011-12 to be material weaknesses.

The Estill County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

March 14, 2012

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2011

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, and each major fund of Estill County.
2. Two material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Eight instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. Two material weaknesses relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. There are two findings relative to the major federal awards programs for Estill County reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2011-01 The County Did Not Comply With Debt Agreements

The County did not comply with debt agreements by paying their debt payments for fiscal year 2011 timely. Fiscal year 2011 payments due to the Kentucky Local Correctional Facilities Construction Authority (KLCFCA) for the construction of the detention center were not paid. These consist of a principal payment of \$10,505 due October 2010 and 2 interest payments totaling \$3,447 due October 2010 and April 2011. These payments were not made until the following fiscal year on August 9, 2011. Furthermore, 3 monthly payments due Kentucky Association of Counties Leasing Trust for the refinance of the county's debt were not made totaling \$11,679 of principal and \$3,087 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Jail Fund:</u>			
Detention Center Refunding Bonds	\$ 10,505	\$ 3,447	\$ 13,952
<u>General Fund:</u>			
KACoLT Refinancing county debt	<u>11,679</u>	<u>3,087</u>	<u>14,766</u>
 Total	 <u>\$ 22,184</u>	 <u>\$ 6,534</u>	 <u>\$ 28,718</u>

The unpaid debt obligations reduce the available fund balances of the General and Jail Fund to use on future obligations. As a result, negative unassigned fund balances are noted below.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-01 The County Did Not Comply With Debt Agreements (Continued)

	<u>General Fund</u>	<u>Jail Fund</u>	<u>Total</u>
Cash Balance			
as of June 30, 2011	\$ 6,142	\$ 807	\$ 6,949
Restricted for:			
Roads	(462)		(462)
Unpaid Debt Obligations	<u>(14,766)</u>	<u>(13,952)</u>	<u>(28,718)</u>
Unassigned Fund Balance	<u>\$ (9,086)</u>	<u>\$ (13,145)</u>	<u>\$ (22,231)</u>

We recommend the county comply with debt agreements and make payments to financing agencies timely.

County Judge/Executive Wallace Taylor's Response: All our bills are paid in a timely manner, must continue operation for public safety. Having to transfer so much to Jail Fund.

2011-02 The County Encumbered Amounts In Excess Of Available Cash Balances

Upon review of the quarterly report and other audit procedures, we noted the General, Road, and Jail Funds encumbered more than the available cash balance. As a result unencumbered negative cash balance in these funds totaled of \$229,317. We recommend the county only approve purchase orders when they determine funds are available.

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
Cash Balance			
as of June 30, 2011	\$ 6,142	\$ 372	\$ 807
Encumbrances	86,638	71,284	49,998
Unpaid Debt Obligations	<u>14,766</u>		<u>13,952</u>
Unencumbered Cash			
Balance	<u>\$ (95,262)</u>	<u>\$ (70,912)</u>	<u>\$ (63,143)</u>

County Judge/Executive Wallace Taylor's Response: Encumbrances are cost of doing business, all debt obligations are current.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-03 The County Should Pay Invoices Within 30 Working Days

During the course of our audit, we found that KACO insurance premiums were not paid in a timely manner as well as various other invoices. Specifically, the KACO insurance premiums were paid over 3 months late costing the county \$3,150 in finance charges. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend the county comply with KRS 65.140, by paying invoices within thirty (30) working days and avoiding penalties/finance charges.

County Judge/Executive Wallace Taylor's Response: Cash flow.

2011-04 The County Should Maintain A List Of Encumbrances And Unpaid Obligations

During the course of our audit, we determined the County was not maintaining a list of encumbrances which should be reported on the fourth quarter financial statement and provided to the Department for Local Government (DLG) and auditors. We compiled a listing of encumbrances and unpaid obligations as of June 30, 2011, as follows:

- General Fund - \$86,638
- Road Fund - \$71,284
- Jail Fund - \$49,998
- State Grant Fund - \$780
- CSEPP Fund – 2,678
- 911 Fund - \$3,789

We recommend the county report all encumbrances by including all outstanding liabilities at the end of the fiscal year on the fourth quarter financial statement. The County should maintain a list of these encumbrances and should not encumber more than the available cash balance in each fund.

County Judge/Executive Wallace Taylor's Response: County does not use purchase order software, therefore financial statements will not show encumbrances. Will discuss how the fiscal court can approve.

2011-05 The Fiscal Court Does Not Monitor Timesheets

While testing payroll expenditures, we noted that four out of ten timesheets reviewed did not include approval by a supervisor and seven out of the ten timesheets tested did not have the employee's signature. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee and shall be kept on file for at least one year. Timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. The employee and the appropriate supervisor should sign all timesheets to verify the accuracy of time worked and leave used. We recommend the employee and the appropriate supervisor sign all timesheets.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-05 The Fiscal Court Does Not Monitor Timesheets (Continued)

County Judge/Executive Wallace Taylor's Response: Letter will be issued to all supervisors and employees to sign timesheets.

2011-06 The Jailer Should Have Expended Commissary Profit For The Benefit Of The Prisoners

KRS 441.135(2) states all profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. Allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes. During testing for jail commissary expenditures, we noted \$2,105 in expenditures for a dryer, cots, mattresses, and handcuffs that would be deemed regular jail fund expenditures. Since these items were jail fund expenditures and not jail canteen expenditures, a purchase order should have been provided by the County Judge/Executive's office and included on the claims list for presentation to the fiscal court. The Jailer circumvented the internal controls of the county by purchasing these items through the jail commissary. We recommend \$2,105 be reimbursed by the jail fund to the jail commissary fund. Furthermore, the Jailer should ensure all expenditures from jail commissary profits are for the benefit of the prisoners and are in compliance with KRS 441.135(2).

County Judge/Executive Wallace Taylor's Response: County Judge Exe has no control over the Jail Canteen Fund.

County Jailer Bo Morris' Response: No response.

2011-07 The Jailer Should Maintain A Receipts And Disbursements Ledger For The Jail Commissary

The Jailer did not maintain a receipts and disbursements ledger for the Jail Commissary account. A receipts and disbursements ledger is required by the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210. Receipts should be posted in a ledger on a daily basis and agreed to the daily checkout sheet. Each check written should be posted to the proper category on the disbursements ledger. We recommend the Jailer ensure all receipts and disbursements are posted properly.

County Jailer Bo Morris' Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-08 The Jailer Should Deposit All Funds Daily

During the audit we noted commissary receipts collected at the Jail were not being deposited on a daily basis. Also, funds collected from inmates for bond fees were not being deposited by the Jailer. The Jailer instead put the amounts collected for bond fees in the safe and then gave the cash to the County Treasurer monthly to be deposited in the Jail Fund. Daily deposits are required by the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210. We recommend the Jailer open an inmate account to deposit all inmate moneys and ensure all moneys collected are deposited daily. We also recommend the Jailer write a check to the County Treasurer for bond fees collected for deposit to the Jail Fund.

County Jailer Bo Morris' Response: No response.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-09 The County Lacks Adequate Segregation Of Duties Over Receipts And Record-Keeping Functions

The County has a lack of segregation of duties over receipt, and record-keeping functions. Typically when one person is in charge of these functions, strong compensating controls are needed. The treasurer collects receipts, posts receipts, makes deposits, and prepares bank reconciliations and reports. The finance officer pays bills and issues purchase orders. Other office staff helps in completing these procedures however this was not documented by initialing supporting reports. We recommend the following procedures be implemented to strengthen internal controls over these various functions:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for. The person can document this by initialing the receipts ledgers and verifying the receipts are posted to the correct account codes.

County Judge/Executive Wallace Taylor's Response: Procedures have been implemented to strengthen internal controls. Mail is now opened and recorded by an independent person, initialing is used as documentation.

2011-10 The Estill County Detention Center Lacks Adequate Segregation Of Duties Over The Accounting Functions

A lack of segregation of duties exists over the accounting function at the jail. The Jailer prepares and takes the commissary deposits to the bank and remits monthly reports along with inmate fees to the county treasurer, reconciles the bank account, and makes payments from the bank account. Segregation of duties over accounting functions, such as the ones mentioned above, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. If the Jailer implements compensating controls he should initial the supporting documentation reviewed. Implementation of the following procedures could strengthen controls at the jail.

- An independent person should agree daily deposits to the daily checkout sheet and the receipts ledger.
- An independent person should review monthly bank reconciliations.
- An independent person should compare invoices to payments.

County Jailer Bo Morris' Response: No response.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2011-11 The County Should Improve Controls And Comply With Davis Bacon Requirements For CSEPP Funds

Federal Program: CFDA #97.040 – Chemical Stockpile Environmental Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Compliance Area: Davis Bacon Act

Amount of Questioned Costs: \$0

The County did not maintain controls in conjunction with the Davis Bacon Act requirement concerning CSEPP federal funds. The federal government requires any recipients of federal moneys be aware of certain requirements and maintain an internal control system to determine these requirements are met. The Davis Bacon Act requires all contracts for construction projects over \$2,000 include language that the contractor will comply with the Act by paying prevailing wages and submitting weekly certified payroll to the fiscal court. The county was aware of the requirements. However, they failed to put in place procedures to ensure they were met. Construction contracts over \$2,000 did not include the proper language and certified weekly payroll were not submitted as required. When weekly payrolls are submitted, the county should review to determine the contractor complied with requirements. Had procedures been in place and monitored properly, these instances would have been identified and corrected during the progress of the project. We recommend the County maintain controls over compliance requirements for federal award programs. Furthermore, construction contracts over \$2,000 should include language detailing the contractors will comply with the Davis Bacon Act by paying prevailing wages and submitting weekly certified payroll to the county.

County Judge/Executive Wallace Taylor's Response: County now maintains and complies with Davis Bacon. Standard contract implemented to include requirements. All contractors must sign contract prior to approval.

2011-12 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP

Federal Program: CFDA# 97.040 – Chemical Stockpile Emergency Preparedness Program

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky

Compliance: Cash Management

Amount of Questioned Costs: \$0

The county should improve controls relating to cash management for CSEPP funding. The CSEPP coordinator compiles all invoices and prepares the form 1801 to request reimbursement from CSEPP funds. He also maintains copies of all the 1801 forms (cash draw-down or reimbursement forms) with the invoices separated by the grant year. During the audit procedures, we agreed a sample of expenditures to the 1801 forms and found that \$59,647 of expenditures did not appear to be included on an 1801 form for reimbursement. Of this amount, \$43,449 can still be reimbursed and 1801 forms should be prepared. The remaining \$16,198 was an invoice for the final payment on the EOC building and cannot be reimbursed now that funding is gone. We have reduced the schedule of expenditures of federal awards by \$16,198 since this amount was not reimbursed by CSEPP.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2011-12 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of
Cash Management For The CSEPP (Continued)

We recommend the CSEPP coordinator ensure all allowable expenditures are included on the 1801 forms for reimbursement. We also recommend he obtain a monthly check listing from the County Treasurer and note each item as it is included on the 1801 form and again when it is reimbursed. This will ensure that items are only included on the form once and reimbursements are obtained. Without improvement to cash management controls, the county could jeopardize future federal funding.

County Judge/Executive Wallace Taylor's Response: Implemented procedure to assure all monies are being reimbursed via 1801. Check register is presented every 30 days from County Treasurer to CSEPP director or CSEPP employee. 1801s are reconciled with monies request.

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

2010-09 The Fiscal Court Is Not Compliant With Davis Bacon Act – Not Corrected. See Comment 2011-11.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


ESTILL COUNTY FISCAL COURT

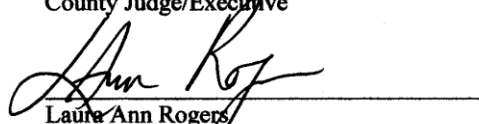
**For The Fiscal Year Ended
June 30, 2011**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Wallace Taylor
County Judge/Executive

Laura Ann Rogers
County Treasurer

